

Financial Management of DEMA Programs

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CHAPTER 1 - GENERAL

Purpose: The purpose of this directive is to establish guidelines for financial management of the Department of Emergency and Military Affairs State programs, to include Cooperative Agreement Programs. Most Program Managers are hired for their skills, training, and aptitude relating to the functional areas of their program, as well as their management skills. The level of government financial management experience, especially with regard to Cooperative Agreements (CA) varies widely among this group, so it is necessary to provide managers a basis from which to learn their respective responsibilities regardless of expertise. This document seeks to provide this basis.

Scope: This directive applies to all DEMA personnel who are involved in state financial management of programs, including those funded entirely or in part by Cooperative Agreements, and who have been duly appointed or directed by higher authority to perform such duties.

References: The following references will be used throughout this document, and may not be referred to specifically. You may contact the State Budget Office (DEMA-RMB) or the United States Property and Fiscal Office (USPFO) Agreement Support Office (AZAA-PFO-AS) for information on obtaining copies of these documents. Where possible, Internet addresses (URLs) are given.

Document	Proponent	Location (URL)
Circular A-87	OMB	http://www.whitehouse.gov/WH/EOP/OMB/html/circular.html
Circular A-89	OMB	http://www.whitehouse.gov/WH/EOP/OMB/html/circular.html
Circular A-102	OMB	http://www.whitehouse.gov/WH/EOP/OMB/html/circular.html
Circular A-123	OMB	http://www.whitehouse.gov/WH/EOP/OMB/html/circular.html
Circular A-128	OMB	http://www.whitehouse.gov/WH/EOP/OMB/html/circular.html
10 USC Section 2465		http://www.law.cornell.edu/uscode/10/2465.shtml
10 USC MILCON		
10 USC Section 133		http://www.law.cornell.edu/uscode/10/133.shtml
10 USC Section 63		
10 USC Section 65		
10 USC Section 1		
10 USC Section 5		
10 USC Section 2193		

Document	Proponent	Location (URL)
DoD 3210.6-R Part 21	DoD	
DoD 3210.6-R Part 22	DoD	
DoD 3210.6-R Part 31	DoD	
32 CFR Part 25		http://asa.ugl.lib.umich.edu/chdocs/federalregs/32CFR.html
32 CFR Part 28		http://asa.ugl.lib.umich.edu/chdocs/federalregs/32CFR.html
32 CFR Part 33		http://asa.ugl.lib.umich.edu/chdocs/federalregs/32CFR.html
Instruction 7000.14	DFAS	http://www.asafm.mil/pubs/pubs.htm
AR 37-100-FY	DFAS	http://www.asafm.mil/pubs/pubs.htm
AR 37-1	DFAS	http://www.asafm.mil/pubs/pubs.htm
ARS 26, 35, 41	AZLEG	http://www.azleg.state.us/ars/ars.htm
PAM 70-20-4	DEMA	
NGR 5-1	NGB	
Arizona Acctg Manual	AZ GAO	
AFMAN 65-604	DoAF	http://afpubs.hq.af.mil/elec-products/pubs-pages/65pubs.html
AFPO 65-1	DoAF	http://afpubs.hq.af.mil/elec-products/pubs-pages/65pubs.html
AFI 65-503	DoAF	http://afpubs.hq.af.mil/elec-products/pubs-pages/65pubs.html

CHAPTER 2 - STATE PROGRAMS

Overview: The agency provides services to the State of Arizona and the federal government in compliance with ARS 26 and OMB Circulars A-87 and 102. As such, it is necessary to maintain some programs that are funded entirely by the State General Fund, and others that are funded entirely or in part by the federal government.

State Funded Programs: Wholly state funded programs operate the core of the agency, allowing the execution of the agency's other missions and programs. Part of the cost incurred by these programs is passed on to the federal government as overhead. This is because the programs serve missions that are federally funded. For instance, payroll for the State Personnel Office is paid from the State Treasury, but portions of it are allocated to the CAs and other programs based on their demand for personnel services. The vehicle for this allocation is the Direct Administrative Service Cost Plan. These purchases are made with funds from the State Treasury, but are reimbursed by the programs they serve.

Federal Cooperative Agreements: Cooperative Agreements are awards by the federal government, through National Guard Bureau, to the State of Arizona in return for services provided by the state. The services to be provided, and the award levels are outlined in each agreement or appendix to the agreement. In some cases, the state is required to match federal awards with state funds. This is usually a percentage of total funding, for example, 75% federal; 25% state.

8.1 *Funding:* Each agreement is allotted funds based on expenditure projections for the missions and purposes given by the individual agreements.

8.1 *Federal Funding:* Federal funds are allotted to each agreement through the USPFO. Federal funding authority is tied to the purpose for which the agreement exists, and is further subdivided by Army Management Structure Codes (AMSCOs) for Army accounts, or Element of Expense/Investment Codes (EEICs) for Air Force accounts. For instance, EEIC 570.20 is a payroll account, and only payroll may be purchased with funds allotted through this account. These funds are initially appropriated in bulk by congress as part of the yearly military spending bill. The Department of Defense (DOD), then the NGB allots the authority into further subdivisions, including the USPFO and the CAs. Spending authority allotted for the agreements is typically valid only for obligations entered into during the given federal fiscal year, which starts on 1 October, and ends on 30 September of the following calendar year.

8.1.2 *State Funding:* In cases where there is a state match involved, DEMA is appropriated funds based on the projected expenditures provided by the

Program Managers. The State Budget Officer allots funds to the agreements' AMSCO or EEIC accounts to match the funding needs as available. The funds are appropriated by the State legislature to the Agency. It is based upon the State fiscal year, which starts 1 July and ends on 31 July of the following calendar year, but extends to 30 September to match the federal fiscal year.

- 8.4 *Allowable Costs:* Each program has a unique set of allowable costs, based on its mission. In some cases, payroll is the only authorized expenditure. There are several notable items, however that are not allowed as costs under the terms of any agreement, which are not immediately obvious. Some are due to specific statutory limitations, and others are due to federal regulation that applies to all federal agencies and grantees. Following is a list of some less obvious unauthorized costs which Program Managers should watch for in the course of business:

Bottled water	Can only be purchased for students or in contingency.
Food	Only allowed under specific circumstances, and never for employees, interns, volunteers, or guests.
Interest	Interest is not an allowable cost nor may interest be earned. Camp Navajo is an exception (see Chapter 8).
Legal fees	Defense or prosecution fees against an agreement are never allowable.
Clothing	Clothing is only allowable as necessary to meet safety requirements, or when specified by the agreement
Phones, pagers	Personal use of cell phones and pagers is generally not an allowable cost.
Personal items	Brief cases, fans, radios, desk clocks, etc., are not allowable costs.
On call time	Full salary for personnel not engaged in active, mission-directed work status is not allowed, even if they are carrying a pager or phone.
Commuting	Travel to and from an employee's actual duty station is not reimbursable.

Managers should consult OMB A-87, 10 USC Section 2465, the State Accounting Manual, and their agreements whenever a cost is in question. They may also contact the DEMA Fiscal Manager or Budget Officer for help with questions regarding allowability of costs.

CHAPTER 3 - PROGRAM MANAGERS

- 7.1 *Overview:* For each program, there is one person designated in writing by the Resource Manager to be the Program Manager. There is also a deputy or an assistant designated to assist the Program Manager and to act in their stead in contingencies. The Program Manager is responsible for the obligations incurred by the program, and for the various accountability issues associated with the fiscal authority given them.

Responsibilities: Program Managers are responsible for all aspects of their programs. As such, it is important that they become conversant with the regulations, laws and statutes that govern their specific activities. Additionally, they need to familiarize themselves with standard rules governing government accounting and procurement practices, personnel and payroll laws, as well as issues pertaining exclusively to federal cooperative agreements.

- 7.3 *General:* Program Managers and their Assistants should study the statutes, laws, and regulations that govern their program. In the case of CAs, the agreements themselves provide a great deal of information regarding day-to-day fiscal concerns, as well as the basis for operation. The state and federal documents that govern administration of the agencies various state programs are published by several different agencies, but are extremely important to Program Managers. Refer to the reference section for a list of the most important documents. This list may seem daunting to even the most experienced manager. Fortunately, Program Managers are not required to be comprehensively familiar with them all. It must be stressed however, that they are the standard by which the programs and their managers are evaluated, so it is of vital importance that Program Managers be able to refer to these documents easily, and at least know the portions that apply to them directly. Following are brief points that are important for Program Managers to know before beginning day to day management.

- 7.3.1 *Obligation:* One of the most important principles of accountancy for any governmental program is that of obligation versus funding. Both the federal and state governments have strict laws against obligating more funds than are authorized. For instance, if a manager is authorized \$10,000 in EEIC 619.90 or AMSCO 51589Y.51 but signs contracts totaling \$11,000, they have overobligated, and are in potential violation of the law. In addition, if obligations are incurred which are outside the scope of the agreement, the manager is in violation. The seriousness of the violation varies with amount and intent, but it is still a violation. It is of the greatest importance that CA Program Managers are aware of the status of their funds at all times. If they need assistance with setting up or maintaining an accounting system, they

may contact the State Budget Office (DEMA-RMB). An additional complexity associated with CAs is that each one has accounts at USPFO and at DEMA. While the sum of these two balances makes up total funds, the account in which the funds reside at a given time is an extremely important factor in considering upcoming expenditures. Liquidations (payments of bills) can only occur from the State Treasury.

Training: In order to be certified as a Fund or Program Manager or Deputy, a manager must complete the agency's Financial Management Course. This course is administered by the Fiscal Manager (DEMA-RMD), and gives managers the specific training needed for their mission.

7.3.3 *Budget Submission:* Each Program Manager must submit a budget to DEMA-RMB before 1 July every year. This budget must consist of monthly expenditures for each Comptroller Object, AMSCO, or EEIC authorized. For Cooperative Agreements, it will be used as the basis for the initial advance received from USPFO for the program. Any deviation from the original budget must be reported *prior to obligation* to the State Budget Office for appropriate action. Camp Navajo must submit their overall budget, to include the CA funding to the General Staff for approval (see Chapter 7).

7.3.4 *General Planning:* Further, it is recommended that Program Managers formulate yearly strategic plans, interim goals, and change implementation plans in concert with the terms of their agreements. These should be submitted to the manager's chain of command, and reviewed quarterly. This is in keeping with proper management practice, ensures compliance, and reinforces good management.

~~7.4~~ *Authority:* ~~Program Managers are given authority to obligate and spend state~~ funds by the State Resource Manager (DEMA-RM). This authority is limited to the scope and mission of the program they manage. The signature of each manager and deputy is maintained in the Resource Management Office. This authority is necessary to execute contracts and spend money for the programs. Managers of Cooperative Agreement Programs are also given authority by the USPFO to move funds into the federal accounts necessary for advance to the State.

7.5 *Cooperative Agreements:* Managers of cooperative agreements have some additional responsibilities, including the following.

CA Advance Requests: Each Cooperative Agreement Program Manager will receive monthly fiscal reports with a request for advance from the State Fiscal Manager (DEMA-RMD). The manager must review these reports for

accuracy, immediately reporting and reconciling any discrepancies with the Fiscal Manager. When the manager is satisfied that the report represents an accurate documentation of fiscal activity, the advance request will be signed and forwarded to USPFO. This process must be carried out as quickly as possible while ensuring the accuracy of the information transmitted to effect timely cash flow.

- 7.5.2 *Fiscal Year Close:* All agreements are required to be closed and settled within 90 days of the end of each fiscal year. At the end of the fiscal year, Program Managers will submit a report detailing all open contracts to the State Budget Office and the State Fiscal Manager.
- 7.5.3 *PBAC Meetings:* Monthly Program Budget Advisory Committee meetings are a requirement for the agreements. This committee is made up of the USPFO Agreement Support Officer, the State Agreement Support Officer, and the Program Managers with their fiscal staff. The requirement is met through monthly meetings with individual Program Managers. At this meeting, the federal, state, and agreement account records will be reviewed and reconciled, and any fiscal concerns or problems will be discussed. At the agreement of the individual PBACs, these meetings may be held quarterly.

CHAPTER 4 - THE EXPENDITURE CYCLE

- 8.1 *Overview:* The expenditure cycle encompasses the process of receiving and spending government funds, and is outlined in detail in many places, most notably *Generally Accepted Accounting Principles*, AR 37-1, ARS 35 and 41, and the Arizona Accounting Manual. The following description is intended to give Program Managers a cursory background in terms and procedures used that is specific to them. It is strongly recommended that they make themselves more familiar with these terms through study of these and other governmental accounting sources.

Funding.

- 8.2.1 *Wholly State Funded Programs:* After a manager's budget is approved based on TAG guidance, historical data, and the agreement of the State PBAC, they will receive an Annual Expenditure Plan (AEP) based on their approved budget and available funds. The AEP will be prepared by the State Budget Officer (DEMA-RMB) and approved by the Resource Manager (DEMA-RM). These funds reside in the State Treasury.
- 8.2.2 *Cooperative Agreements:* Funding for CAs comes as a Funding Authorization Document (FAD) from NGB, to the USPFO, who transmits it to the Program Managers on Funding Allowance Targets (FAT). The FAT authorizes the manager specific funding levels for each EEIC or AMSCO in the agreement. This implies that authority is only given to spend certain levels on specific items or projects. These funds reside in the US Treasury, and must be obligated by the USPFO for disbursement to the State for use in payment of obligations against the agreement. This transfer funds the state accounts and is normally performed monthly.

Pre-Encumbrance/Commitment: Commitment of funds is an informal obligation or setting-aside of a definite amount for use toward a specific purchase. When a Program Manager signs a DEMA 005, the amount on the form is pre-encumbered (state term) or committed (federal term), which decreases the amount of funding authorization available for further use on the ledgers kept at the program level. In addition to the DEMA 005 form, managers may use an expenditure letter to pre-encumber funds for non-contracted purchases such as utilities. Contact the Fiscal Manager for information regarding this form. It is the responsibility of Program Managers to keep a commitment ledger based on purchase requests. In addition, each program will be given biweekly payroll reports that show the exact amount of all payroll expense. This should be accounted for as well. These commitment ledgers will be reconciled at least quarterly in regular PBAC meetings. If a manager feels that more frequent

reconciliations are needed, they need only contact the State Budget Office or USPFO Agreement Support Office to schedule interim reconciliations. The importance of these ledgers and their accuracy is paramount to the proper, efficient cash flow in the agreements

Encumbrance/Obligation: Encumbrance or obligation is the formal setting aside of the amount on the purchase request, and occurs when the DEMA 005 is approved by the State Fiscal Manager and the Procurement Officer or their official designees. This moves the funds into a separate account in the state accounting system and causes a decrease in available funds in the State Treasury. Encumbrances are tracked by the state's accounting system, the Arizona Fiscal Information System (AFIS). If the purchase is canceled, the encumbrance must be canceled as well, in order to free the funds for future use.

Accrued Expenditure: When the order is filled, or the contract is completed in whole or in part, a receiving report is required from the initiator of the purchase. This causes an accrual of expenditure. This simply means that the obligation is in further force, since the government is in possession of goods or services that have not been paid for.

Expenditure/Liquidation: Once the expense is accrued, and a valid invoice is received, the obligation is liquidated. This means that a check or warrant is written and sent to the vendor/contractor. AFIS reconciles and closes each month on the night of the first Friday of the following month. It then issues reports that are sent to the Fiscal Office about two weeks later. Upon final payment of a contract, it may be found that the obligated amount is different from the actual amount of the purchase. These amounts are reconciled and adjusted as necessary at the time of liquidation. In some cases, it may be necessary to increase the obligation manually. Normally, this is known in advance, and should be handled as an amendment to the contract through normal procurement channels and procedures.

Revenue: For most programs, including CAs, there should be no pure revenue. Camp Navajo is an exception (see Chapter 7). Funds from sources other than the State or the agreement must be either a refund or a reimbursement. Refunds are performed to reconcile an overpayment or an erroneous payment. Reimbursements are funds received to offset specific expenditures. There are programs that receive revenue in the form of facility rental, or even sales of goods and services. Managers must refer to their individual program constraints to be sure when it is appropriate to accept such payments.

CHAPTER 5 - THE COOPERATIVE AGREEMENT CASH FLOW CYCLE

Overview: For programs funded by Cooperative Agreements, the cash flow cycle refers to the movement of funds from the federal treasury to the State treasury, then to vendors. Good cash flow management is a very important part of all Program Managers' responsibility, but is critical for CAs. If cash levels in the State treasury get too low, vendors can not be paid, and interest or late payments may be incurred. The Cash Management Improvement Act however, prohibits the USPFO from giving the State more funds than are necessary to conduct business. This earns the federal government interest. Managers are to operate their programs at the optimum efficiency to maintain cash levels that are adequate, but not excessive, and to hold waste to a minimum.

Budgeting: As stated earlier, one of the Program Manager's responsibilities is to submit a yearly budget to the State Budget Office prior to the start of every fiscal year. In most cases, budgets are relatively simple to formulate as they are comprised mostly of fixed costs like payroll, utilities, and operating supplies. In some cases however, large contracts, changes in mission, or new programs must be taken into account. Contact the State Budget Office (DEMA-RMD) for help with budget formulation. The budget is a funding and expenditure plan that gives all parties to the CA a basis for monitoring the fiscal health of the program. If midyear variations from the approved budget are foreseen, the State Budget and Fiscal Offices must be contacted immediately to make plans for additional advance or other available contingency measures.

- 9.3 *Funding:* Funds for the FCAs are allotted to the USPFO, who in turn allots them to the agreements based on demonstrated need. This final allotment is executed with a Funding Allowance Target (FAT). The agreement itself may need to be modified to reflect the proper yearly funding levels. This gives Program Managers the authority to obligate federal funds for disbursement to the State. Often the FAT amount is only a small part of the total agreement funding. At the beginning of the fiscal year in particular, army funds come in very slowly, and agreements are funded at subsistence levels. Incremental FATs are issued quarterly, or even monthly. Managers may receive word that their agreement will be fully funded for the year. This does not mean that those or any funds are available for obligation by the Program Manager. Conversely, at the end of a fiscal year, funds are often available for obligation, but are overlooked. If they are not obligated by 31 October, obligation authority is lost. Once federal funds are available, they must be obligated to be transferred into the USPFO account corresponding to the agreement. This action only readies the funds for obligation towards advance to the State.

Initial Advance: Once the budget is approved, an initial advance is calculated based on the first two months of the year. Since funds are not generally available immediately, the advance amount may be decreased to minimal levels. In this case, payroll and other core, mission-essential expenditures are used as a basis. Once this amount is approved, it will usually be given to the Program Managers on FATs, and must then be obligated for transfer into the proper USPFO account. It must then be obligated for disbursement to the State. This is a very important step and must be performed as quickly as possible. The state is limited to disbursing only on a cash basis, funds must be in the State treasury before they can be encumbered. It takes approximately ten days from the time the advance is approved until the money is transferred to the State, as long as the funds are obligated properly by the Program Manager.

Monthly Advances: When the State Fiscal Manager receives the monthly fiscal activity reports from AFIS, he uses the amounts of the encumbrances and expenditures incurred during the month to create a request for advance. These items are sent to the Program Managers for reconciliation and approval. If there is money available for each AMSCO or EEIC, they are then signed by the managers and sent to USPFO with an obligation document for the amount of the advance. USPFO will verify funds availability and process a payment to the State for the approved amount. Ideally, it will not be necessary to ask for an advance for August transactions because the initial advance will be used to cover September's activity. This does not always happen, so it may be necessary to reconcile all accounts and review the amount needed to finish the year. If it becomes apparent during the year that additional funding will be necessary to complete the mission of an agreement, the Program Manager must contact the State Fiscal Manager and the State Budget Office so an additional advance may be requested. This may occur when a project starts earlier than expected, or when a previously vacant position is filled. In this case, additional funding for the agreement is not needed, but the expenditure plan must be revised. Occasionally it may be necessary to request higher funding levels for an agreement based on a new, essential position being created, or a contract costing more than was originally estimated. This request should be made in conjunction with the State Budget and Procurement Offices, and the USPFO.

10.0 CHAPTER 6 - MISCELLANEOUS

Accounting and Reporting: Every month, Program Managers receive a fiscal report with the request for advance. The managers need to review this report very carefully, verifying each transaction, and reconciling it with their commitment ledgers. If there are discrepancies or items that are not understandable, contact the State Fiscal Manager (DEMA-RMD) or Budget Office (DEMA-RMB). If a manager needs assistance with their accounting system or training for accounting or budget issues, contact these same offices.

Personnel and Payroll: Program Managers are responsible for proper personnel management. Abuse of leave by state employees will not be tolerated. Managers should be certain that time and attendance is proper and accurate before submission. Employees' schedules should be realistic and should reflect the mission of the program. It is a statutory violation to pay an employee for any time not accounted for accurately on their time and attendance form. It is also a violation to knowingly approve such a time and attendance report. This means that all time worked or not worked must be accounted for on the time and attendance form. Letting an employee "make up" time not worked "off the books" puts the State, the employee, and the manager at great risk. Preventing these excesses is simply good management practice, and will reduce payroll losses, while creating a good working environment for employees. The State Personnel or Payroll Offices will answer questions or assist managers to set up good personnel and payroll procedures.

Lines of Communication: The agency and the USPFO have found that the main cause for delays in cash flow, overobligation, and many other problems with all the agency's programs has been poor communication between the various entities responsible for administration of the agreements. In many cases, a simple telephone conversation can prevent serious problems. Following are some important contact points for fiscal management questions:

Office	Office Symbol	Voice Phone	Fax Phone
DEMA Budget Office	DEMA-RMB	267-2744	267-2903
DEMA Procurement Office	DEMA-RMC	267-2765	267-2576
DEMA Fiscal Office	DEMA-RMD	267-2758	267-2421
USPFO Agrmt. Spt. Office	AZAA-PFO-AS	267-2483	267-2941

Travel: When state employees must travel to perform their missions, they are entitled to reimbursement of their directly related expenses. If the travel destination is outside the state, approval must be obtained prior to departure from the Arizona Department of Administration. A memo justifying the need for

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travel must be sent through the DEMA Resource Manager to DOA. DOA will usually return their response within three days. To receive reimbursement, employees must submit a Travel Claim (GAO-503EZ) form through their supervisor for approval. The supervisor must verify the fund cites and the allowability of the expenditures, then forward the form to the DEMA Travel Section (DEMA-RMD).

CHAPTER 7 - CAMP NAVAJO

7.1 *Overview:* Camp Navajo, due to the nature of the CA funding it, its location, and its mission, falls in a different category than other agreements in some respects. The Camp Navajo fund is established by ARS 26-152, Section D. In addition to the Camp Navajo CA, the program receives funds from federal and other sources as payment for storage of commodities and other services. The fund is a no-year fund (ref. AR 37-1), and can earn and retain revenue to include interest.

Requirements: Camp Navajo must comply with all state and federal statutes, regulations, instructions, directives, and rules applicable to federal cooperative agreements and state programs. The following are necessary to assure this compliance.

7.2. *Budget:* As noted in Chapter 3, Section 2-d, Camp Navajo must submit a yearly budget to the General Staff for approval at their July meeting, each year.

7.2.2 *Program Manager:* The Commander/Program Manager of Camp Navajo or his/her assigned designee will approve all obligations and expenditures against the program fund, and is responsible for accurate accounting of all transactions occurring in the fund. He/she will also be responsible to ensure that the obligations and expenditures in the fund are within the scope of the law and the agreements supplying the fund, as well as the approved yearly budget. The Program Manager will institute an accounting system that will provide the reports necessary to comply with these requirements.

7.2.3 *Accountancy:* ~~Because of the nature of the Camp Navajo fund, it will be held~~ separately in the State Treasury, and, as with all agreements, will be accounted for separately by the DEMA Fiscal Manager. Fiscal activity will be reported to Camp Navajo by the DEMA Fiscal Manager on a monthly basis. The Commander of Camp Navajo will require that the Camp Navajo ledgers are properly and accurately reconciled on a monthly basis with the Arizona Fiscal Information System to verify cash balances and the appropriateness of all transactions.

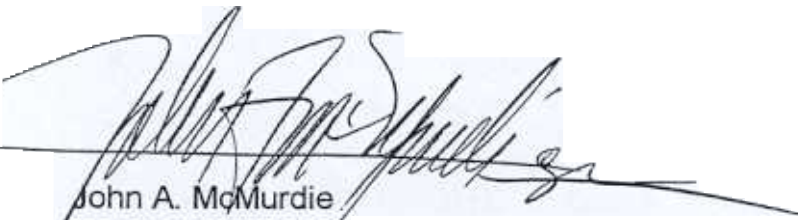
22 October 1997

The proponent of this directive is the Department Resource Manager. Users are invited to send comments and suggested improvements on DA Form 2029 (Recommended Change to Publication) to Resource Manager, DEMA-RMD, 5636 E. McDowell Rd., Phoenix, AZ 85008-3495.

BY ORDER OF THE GOVERNOR:

THE ADJUTANT GENERAL

OFFICIAL



John A. McMurdie
Resource Manager

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